

OBSERVATIONS FROM A TRIP ACROSS THE CONTINENT.

AN ADDRESS DELIVERED BY

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OF

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BEFORE THE

NATIONAL PREMIUM ASSOCIATION

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*I know not what profits
there may be in the recorded
experience of the past, if it be
not to guide us in the present.*

—DISRAELI.

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GENTLEMEN OF THE NATIONAL PREMIUM ASSOCIATION:—

I am to say a word to you about business conditions as I learned them from my recent trip to the Pacific coast. It is almost summed up in one sentence: While they are not as good as we might wish, they show a marked improvement over a year ago. I think what I shall say might better be called or classified as "Our Greatest Business Opportunity." However, let us summarize for a moment. A car shortage in the West, railroads reporting a larger gross and net, and steel mills running at full capacity on satisfactory orders and high prices. Reports of Federal Reserve banks show a hopeful tendency and all banks show their largest reserves. Crops are good in the West; wheat moving at fair prices; cotton up again and some activity almost everywhere, which should stimulate confidence. There is one spot or section of our country which is still much below normal —the Pacific coast. Here lumber is still in limited demand with many idle mills; oil is selling for 32 to 35c. per barrel and a drug; development, both in oil and building, at a low ebb; dried fruits, citrus fruits, apples and nuts finding only a limited market and that in the interior. From San Diego to Seattle I visited as many friends as I could find leisure. It was my conclusion that nearly everybody seemed at leisure—leisure to sell at any price and no takers. I also concluded that the Pacific coast would not only welcome a friend but even an enemy—anything to save it from what someone has called "A State of Mind" or perhaps what the poet would call "The Malady of Thought." Even "Shylock," (otherwise known as a coast banker) has allowed his feelings to be tempered by mercy and therefore thinks he is doing well enough to get his note renewed and interest paid. The principal reason is "bottoms," or a need for a United States Merchant Marine, accentuated by the closing of the Panama Canal for some considerable time. The great exposition is gen-

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erally conceded to be a lesson in Art. The industrial element and applied sciences are all there, yet, the people in the number originally expected have not come nor, likewise, all the benefits. The critic is not a welcome visitor there—if he returns to condemn things—so my remarks are not criticism but the report of a condition that the people of the West could not foresee, and if they did, could not entirely avoid. They still have all that nature ever gave them, and much that man and money has done, and the usual big western idea of big things awaiting accomplishment, which will some day be realized. Optimism spells hope, and hope and climate keeps the heart happy on the Pacific coast.

The United States, taken as a whole, however, has much to be thankful for and we are in my judgment experiencing greater prosperity than we are willing to admit. In the fiscal year ending June 30th, 1915, our exports are reported at \$2,768,589,000; imports \$1,674,169,000; a gain of \$1,094,420,000 in our favor.

The new prosperity is everywhere beginning to be felt. Dividend disbursements are steadily increasing, and by the end of the year, may easily establish a new high record. Last week two companies declared initial dividends, two resumed payments of dividends, four voted increased dividends and four others declared extra dividends, whereas, a year ago hardly a day went by without a corporation omitting its regular dividends. Perhaps without the war in Europe these conditions could not have existed but if they did, or anything like them, we would claim that we were passing through the period of our greatest prosperity. The feeling, and I may say the prevailing sentiment, is that this condition of prosperity is but temporary. It is this feeling that is restraining our internal trade despite abundant crops, plethoric bank reserves and an unprecedented balance of trade in our favor. It is this feeling that prompts many men to say, "Go slow" when asked to build new buildings or authorize construction or wealth-producing work. It is this feeling that is responsible for the depression in the shoe trade, the lumber trade, the building trade, and which checks normal development—especially in the South and on the Pacific coast.

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It is therefore highly important to ask ourselves whether this fear is justifiable, or putting it in another way, what are our opportunities? Some of you may have read an article in World's Work for November by Theodore H. Price on the subject "Will Prosperity or Poverty Follow the War"? Permit me to quote a part of what he says:

"The belief that the waste and disorganization of war will bring business depression seems plausible and is fostered by the gloomy exhalations of the battlefield but it becomes very debatable when examined in the light of the precedents and the facts.

"The precedents are the Napoleonic Wars, the Crimean War, our own War of the Confederacy, the Franco-Prussian War, the Boer War, and the Russian-Japanese War. None of these wars was immediately succeeded by acute business depression. Some of them, in fact, appear to have induced or at least were followed by extraordinary activity and prosperity. Especially is this true in later years, since steam, electricity and labor saving machinery have made economic adjustment possible.

"But it may be said that precedents do not apply to an unprecedented situation and that the magnitude of the present struggle is entirely beyond the measure of history.

"This is true, and although principles generally apply irrespective of size, it is just as well to scrutinize the facts as well as the precedents.

"What, then, are the facts? About twenty million men are in arms in Europe at an expense to the various governments involved estimated at \$40,000,000 a day. How much of this would be spent in luxury and extravagance if the belligerent nations were at peace, it is hard to say.

"Is Economy Offsetting the War Waste?

"Certainly great economy is now being practised throughout Europe.

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"Is it the equivalent of ten cents per capita daily? If so, the European population of 450,000,000 is saving \$45,000,000 a day, which is more than the cost of the armies.

"It is guess work at best, but thus far the war has not disproved the axiom that the whole is equal to the sum of all its parts and that it cannot exceed that sum.

"Up to date the war has been fought with money obtained in Europe, and not elsewhere. Whatever has been or may be borrowed in America is but a drop in the bucket.

"The belligerent nations, therefore, are taxing themselves or going in debt to their own citizens to pay for the war. This looks like redistribution, but not the destruction, of capital. There is, of course, waste. It is represented by the cost of explosives which are reconverted into gas; of guns that are destroyed; of ships that are sunk; and the value of a few, not many, cities that are razed. But is this cost greater than that of automobiles that are worn out in the pursuit of pleasure, of superfluous servants, of extravagant dressing and eating, and of the many luxuries upon which money is spent in times of peace and prosperity by these same nations? If not, then the wastes of war exceed those of peace only by the value of the lives destroyed or rendered useless.

"A powder factory is no less economic than an ice factory except in that it may aid in the destruction of life and property.

"If we assume that, out of 20,000,000 fighting men, 25 per cent. will be killed or crippled—an excessively high estimate—and that the economic value of these 5,000,000 lives is fairly capitalized at \$3,000 each, the maximum loss so resulting will not be in excess of \$15,000,000,000 and probably much less.

"Regarding the other economic wastes of war, it is probable that they are exceeded by the wastes of peaceful extravagance, and the profits derived from war expenditures are certainly no less than those accruing from an equal amount of non-military commerce."

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Although \$15,000,000,000 is less than the estimated annual increase in the world's wealth, it is a large sum, and though it may not produce a cataclysm, such a loss may well give us pause unless we can see some means of quickly recovering it. Is such a recovery possible and, if so, how will it be accomplished? Mr. Price says:

"In order to answer this question intelligently, it will be well to go back to first principles.

"Wealth is the marketable surplus of a man's production, or increment, over his needs. The creation of wealth presupposes a surplus production and a demand for it.

"Production and demand in combination are, therefore, necessary to the creation of wealth; and it is to their reciprocal growth that the increase in wealth is due.

"As the productive power of the individual increases, he comes to have new desires and is able to satisfy them because he is producing more. This is described as an 'increase of the purchasing power' and it almost invariably accompanies an increase of the productive power. It is possible to conceive of a dozen intelligent men on an unknown and unvisited island starting out with nothing and rapidly becoming wealthy through an interchange of production, but the value of their accumulation would be restricted by the limited demand for it and would be immensely increased as soon as the markets of the world were opened to them.

"It is plain, therefore, that the accumulation of wealth has a very definite relation to the productive power, the number of producers, and their trade facilities, for every producer is a potential buyer by whose purchases the value of the product is stabilized and enhanced.

"In a world in which all persons—men, women, and children—were working up to the economic limit of their productive capacity, the increase of wealth would be marvelously rapid, and would be accelerated by every labor-saving device that in

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effect increased the number of producers because it multiplied their efficiency.

"It is a little difficult to visualize such a world, for none of us has ever seen it.

The Unutilized Energy of the World.

"There is hardly a man who works up to the limit of his capacity. There are millions who try to do as little work as possible. The waste even in the most scientifically conducted industries is enormous, and there is an immense amount of energy generated that is not utilized at all.

"It has been jokingly said that the collective energy of the baby's cry would run the railroads or New York State if it could be conserved, and when we consider that only 15 per cent. of the energy of coal is utilized, that the unharnessed water-power of the United States represents millions of horsepower going to waste, and that probably less than 5 per cent. of the available human energy in the world is productively employed, we must admit that a very slight increase in industry or efficiency will recover an enormous loss of wealth.

"This statement may perhaps be clearer if reduced to figures. As suggested, the capitalized value of the lives lost in the war may be \$15,000,000,000. Five per cent. per annum is a fair interest on this sum and a further 5 per cent. will amortise the loss it represents in thirteen years. This is \$1,500,000,000 yearly.

"If, by greater industry or concentration, 50,000,000 men working 300 days a year can increase their production by the equivalent of ten cents a day for thirteen years, the resulting increment at the end of that period will offset the assumed loss, interest and principal.

"Is this impossible? By a little speeding up or intensified application, practically any one can increase the value of his services or production ten cents a day, and many more than

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50,000,000 persons are now peacefully at work in Europe, to say nothing of the unnumbered millions of Asia, Africa, and America whose energies will be quickened by the demands of postbellum reconstruction.

“Disaster Sometimes Beneficial.

“Through fires which almost wiped them out, the economic renascence of Chicago, Baltimore, Boston, and San Francisco was accomplished, and these cities are today greater and richer than ever mainly because disaster put *everybody energetically at work*. The war is likely to have the same result. If it does and all those that can work become producers to the extent of only half their capacity, the recovery will be amazingly rapid.

“This is, of course, too much to hope for. A world in which all those who can work shall be found working up to even half their capacity will be an economic Utopia impossible so long as men continue to be as lazy and as self-indulgent as they are.

“It is, however, entirely possible that national pride, spurred by need, will increase the aggregate of productive energy by at least 10 per cent., and if it does there will be no cataclysm, for the immediate addition to the world’s wealth will be prodigious.

“War a Stimulator of Industry.

“In France, England and Germany the war has already put most idlers at work and made men willing to labor longer and more efficiently, and the fact that war always has this effect probably explains the paradox of the prosperity by which it is nearly always followed.

“It comes to this: The increase of wealth is in proportion to the intensity and efficiency of human industry, for which war is the greatest stimulus thus far known.

“War is, in fact, stimulating to mankind both physically and mentally.

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"It not only makes men willing to labor longer hours but it leads them to devise ways of making their labor more efficient.

"Probably the fact that war compels economy predisposes men to the use of machines that economize human energy, but whatever the reason for the coincidence, the consequences are amazing.

"In Europe, the era of railroad building that succeeded the Napoleonic Wars increased the world's wealth by many times the sum the wars had cost. In our own country, industrial co-ordination and the use of automatic machinery was so rapidly extended after the War of the Confederacy that our national wealth, estimated at 7 billion dollars in 1850 had grown to 187 billion in 1912.

"Instances of this coincidence between war and the subsequent increase of wealth through increased mechanical efficiency might be multiplied, but it is unnecessary. Who knows what effect in cheapening and facilitating transportation may follow the military use of the aeroplane and the submarine? In this country, as a result of the war, we are developing our own supplies of dye stuffs and potash and seem likely to increase our national wealth accordingly.

"Carlyle said that 'without tools man is nothing; with tools he is everything.'

"In the manufacture of pins by hand, it takes 140 hours to manufacture twelve packages of one pound each, while the machine does the same amount of work in one hour and a half.

"To make 100 pairs of shoes of a certain grade takes 1800 hours by hand and 200 hours by machine, and the cost of the machine-made shoes is one-fifth of the hand-made.

"When gingham cloth was made by hand it took 5800 hours to make 500 yards. It takes 72 hours by machine.

"In agriculture the same thing is true. A good man with a scythe could formerly reap one acre a day. A good reaper and binder can do it in twenty minutes.

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"The increased effectiveness, according to United States reports of man labor when aided by the use of machinery, as indicated by these figures varies from 150 per cent. in some cases to 2,244 per cent. in others.

"If it be true that war leads to the increased use and invention of labor-saving machinery, as well as greater individual industry, then there need be no fear of its economic effect. Economic readjustments may, indeed, be necessary, and as soon as they are completed there will be increased prosperity but no cataclysm. It is a law of physics that 'action and reaction are always equal in opposite directions.' The same rule applies in economics. Were it otherwise, the world would retrograde in time of war, and it doesn't.

"What surer guarantee can we have that with the return of peace the productive power of mankind, unleashed and quickened by need and competition, will speedily be manifested in an addition to the world's wealth incredibly beyond precedent?

"The French are here with \$160,000,000 of orders for machinery, steel, and other products to be delivered on close of war.

"America at least has no reason to doubt its future, for already we are by far the richest nation in the world and rapidly growing richer even though the progress of our competition is retarded by an epidemic of war madness, from which we have thus far been immune."

Now, leaving out of consideration matters of war and matters of prophecy, my trip emphasized this one fact that "Business today is the Art of Human Service." If we are benefiting the world and rendering it a genuine service the world will patronize us and pay us. Justice Holmes said in one of his lectures on the Common Law:

"Law being a practical thing must found itself on actual forces;" and he adds, "Philosophy may find a hundred reasons to justify the instinct, but it would be totally immaterial if it should condemn it and bid us surrender it without a murmur."

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It seems to me what business is trying to do—even the premium business—is to satisfy human desire in an orderly manner according to the dictates of enlightened reason. Sir Edwin Coke was fond of saying that “Reason is the Life of the Law; nay, the Common Law itself is nothing but Reason.” These, and such as these, are the reflections of the business world everywhere. They are the opposing forces to radicalism that would reduce our commercial system into a code by which the energies of the mercantile community would be shackled. The “Law Merchant” was a law of custom and it did not operate to prevent merchants and manufacturers from working out improvements and benefits that were then and are now enjoyed by everyone. It was done without assistance from any legislative body. It was pure democracy because democracy does not believe in governing by force or threat or any other form of coercion.

The opportunity of today for us, it seems to me, is to let the people into our confidence.

First—because we are not a parasite on business. If we are so are all forms of advertising and modern devices for selling.

Second—that premium houses do not give something for nothing but something for something. Continuous patronage and cash payments are what premiums get the house that uses them, and continuous patronage and cash trade spell success to every business.

Third—the use of premiums does not add to the cost of goods to the consumer. Not a single case can or has ever been furnished showing an increase in price of the same article sold with or without a premium token. In the first place, the amount is infinitesimal on each article, and in the second place the price of any article is fixed by the cost of material, labor, rent, freight, insurance, selling expense and some profit, and is, if not a monopoly, regulated by competition.

And so I care not in what line of business you are engaged the “art of human service” applies. We are all salesmen. A merchant or manufacturer sells his goods; the artist sells his

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skill; the clergyman his talent and personal influence and the lawyer his ability. The newspaper furnishes and sells us the news and sells its pages for advertising. The premium selling and premium using houses build trade and encourage thrift by giving something as a discount for cash or to induce buying. There are many systems and many methods but all, if they succeed, will only succeed by being co-operative and based on the "art of human service." I make the statement, and believe you will agree with me, that the codification of our mercantile law would be a national evil; that it could not, and should not, apply to our form of endeavor unless it applies to all, and that it would destroy the singular and fortunate plasticity of a system whose rules hitherto have been, and always ought to be made by the merchant, and dictated by his exigencies.

Work out these reflections and apply them to your individual business and you have the answer to a changing sentiment and a brighter and better future.

Our Great Opportunity.

If business conditions are such that war orders of \$1,000,000 to \$5,000,000 each are appreciated, and no doubt they are by those owning idle factories, and by otherwise idle men, is not the continuous growth of the premium business with its annual purchase and distribution of over \$100,000,000 of useful merchandise even more important? It is continuous and growing and is both money to manufacturer and work for labor. We in the premium business can certainly feel that we have done much, have furnished substantial relief and will continue to contribute more each year. Is this not the service side of the account of everyone using premiums, and does it not fully answer the question of redemptions so frequently asked by those opposed to the use of premiums? If you agree with me you must also admit that here is a real opportunity for this association of National Premium users, and for each of us to present this side of our business to the public—the service side—in a forceful, honest and no uncertain manner so that public senti-

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ment, wherever wrong, can know the truth and our relationship to trade be better, and if possible, correctly understood.

These are the conclusions of an optimist who does not believe the predictions of financial cataclysm when the war is over. If this prophecy is but partially realized, we in America have a greater opportunity than we ever had dreamed of. The business of the merchant, the manufacturer, the transportation company and the banker will enormously increase; labor will be in greater demand and at higher rates, likewise, money or credit; and with this prosperity, we who deal in premiums as a trade builder, and those who share profits with their customers, will prosper also. I therefore submit and predict that from all signs and known conditions, tomorrow, and for some time to come, we may expect "clear skies" and a condition in business labeled "fair and warmer."

*“Thrift, in its larger sense
is the art of making the best
use of what we have.”*

Resolutions of the RAILWAY BUSINESS ASSOCIATION

NATIONAL ORGANIZATION OF MANUFACTURING,
MERCANTILE AND ENGINEERING CONCERNS
WHICH DEAL WITH STEAM RAILWAYS, IN ANNUAL
BUSINESS MEETING ASSEMBLED, WALDORF-
ASTORIA, NEW YORK, JAN. 27, 1916

I

The Congressional Inquiry

The President has proposed and the Senate Committee has unanimously recommended an inquiry into the whole subject of railway regulation. Such an inquiry is a national necessity. Successful regulation, whether of transportation or of other business, is essential if private industry and individual initiative are to continue. We believe regulation will succeed. It must. But successful regulation is regulation under which those regulated can thrive and grow; and this is not yet assured to railways. Financial results of governmental action officially concern no arm of the government. In peace or in war national welfare demands transportation facilities that can respond to emergencies. Many of our roads can not even meet the traffic requirements of a normal national growth. The narrowing of net income has too long been neglected.

With such an inquiry the railway and cognate industrial interests should co-operate in a spirit acceptable to those in official authority. Vast many signs that the public is ready to discuss the problem with due vigilance for public rights, but anxious also for railway prosperity. Organized business animated by them can lend strong aid in disseminating information and reporting public opinion to Congress.

II

Average Conditions the Test

Every regional rate case, rates being the same for all roads, brings opposition on the ground that the most prosperous lines will gain revenue and that some of the least prosperous were impoverished through ill-judged location or through defects of management. We urge solutions based on the average condition of the average road. By that method the relief given to the neediest is meagre for the very reason that the condition of the least needy goes to make up the average by which necessity is tested; whereas the most prosperous company, taking pot-luck



than nothing. What is required to